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TAXATION OF SWISS REAL ESTATE

Are you considering buying real estate in Switzerland? Whether as your main home, as a holiday home for your own use or as an investment, legal restrictions apply and tax consequences should be considered. **PwC** explains.

1) PURCHASE OF REAL ESTATE

Who can buy real estate in Switzerland?

For the acquisition of Swiss real estate by non-Swiss persons who do not hold a B or C residence permit (and who, as such, do not have the right to take up residence in Switzerland), an upfront permission from the cantonal authority allowing them to buy the respective property is required.

Citizens of a Member State of the European Union (EU) or of the European Free Trade Association (EFTA) and foreign nationals with a Swiss residence permit C are treated in the same manner as Swiss nationals, provided that Switzerland is their principal place of residence or they have a right of abode here. With regard to the purchase of second homes, further restrictions based on the so-called "law on secondary residences" apply. These differ from canton to canton and need to be taken into account when looking for a holiday home.

What taxes are due upon the purchase of real estate?

The transfer of the ownership of real estate requires public certification and registration in the land register. Respective notary and land register fees vary across the different cantons, and both parties are usually jointly and severally liable for these. In the majority of cantons, a real estate transfer tax is levied in addition — ranging from around 0.1%-3.3% depending on the canton.

2) OWNING REAL ESTATE

The concept of deemed rental value

In Switzerland, homeowners are required to pay income tax on the theoretical rental value of the home they use themselves as either

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their primary or holiday home. This so-called "deemed rental value" (in French *valeur locative* / in German *Eigenmietwert*) is on average 70% of the potential market rent and is estimated by the tax authorities.

DEDUCTIONS REDUCE YOUR TAX BURDEN

Real estate owners can deduct costs for maintenance and renovation, insurance premiums and third party administrative costs from the taxable real estate income. Further deductions for investments in connection with environmental protection, energy efficiency and heritage protection may also be possible. Alternatively, for privately owned and used real estate, lump sum deductions between 10%-30% of the deemed rental value are permitted instead of the actual costs. Depreciation on privately held property is not allowed.

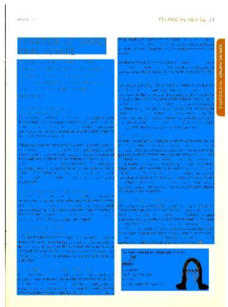
Interest paid on private debts such as mortgages is deductible up to the amount of income earned from investments (including the deemed rental value) as declared in the tax return plus CHF 50,000.

NET WEALTH TAX AND REAL ESTATE TAX

Real estate owned by a Swiss resident individual is subject to wealth tax at cantonal and communal level (along with any other asset owned). The tax value of the property is estimated by the tax authorities, and is on average 70% of the fair market value. Real estate owned outside Switzerland is only taken into account for determining the applicable tax rate. Personal debts such as mortgages or loans can be deducted from wealth, resulting in the taxable net wealth. In addition, certain cantons levy a so-called real estate tax, which is determined based on the tax value of the property and is levied separately from net wealth tax.

3) SALE OF REAL ESTATE

Whereas capital gains on privately held movable assets are tax free in Switzerland, capital gains realized from the disposal of privately held Swiss real estate are subject to real estate capital gains tax levied at cantonal level. Tax rates largely depend on the holding period and the amount of the gain. Typically, disposal within a short period is taxed prohibitively high in order to avoid real estate speculation, whereas the tax rates are reduced if the real estate has been held for at least five years. Capital gains tax on real estate will generally be deferred if a primary home is sold and the proceeds of the sale are re-invested in another home within



two years. Special rules apply to inheritance, gifting and change of ownership due to divorce.

4) TAX PLANNING OPPORTUNITIES

Ownership of real estate allows for tax planning opportunities. Since interest payments for mortgages are deductible, you can reduce your tax burden by choosing the right mix between mortgage coverage and your own funds (this concept extends to real estate held outside of Switzerland). The right timing of renovation work or the sale of real estate can lead to substantial tax savings. Finally, if you own multiple properties including buildings which are rented out, it might be more tax efficient to hold real estate not personally used by you indirectly through a real estate company. ●

For more information, simply get in touch:

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